

**STRATEGIC PLANNING PRACTICES AT KENYA NATIONAL AUDIT
OFFICE**

BY:

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DECLARATION

This management research project is my original work that has not been presented to any other University or Institution of Higher Learning for examination.

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This management research project has been submitted for examination with my approval as the university supervisor

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DEDICATION

My study is dedicated to the following, my brother Peter Mwangi Githinji who tragically passed away while we were together on 26 September 2010 and therefore did not live to see the fruits of the hard work I have put in completing this degree, Rest in Peace Mwangi. My entire family for their invaluable support they have given me during the entire period of my study. For their encouragement and continued prayers towards successful completion of this course.

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ABSTRACT

Today, organisations in developed and developing countries operate in a more turbulent and complicated environment. Strategic planning in Kenya's public sector is part of the ongoing Government reform process that began in early 2000. In a deliberate move aimed at enhancing productivity, the Government initiated several reforms in its operations. This study sought to investigate strategic planning practices adopted in KENAO as a player in the public sector. The objective of the study was to determine the strategic planning practices adopted by the KENAO.

The study adopted a case study design as it was to give in-depth information on the strategic planning practices adopted by the KENAO. In this study, the research narrowed down to strategic planning practices adopted in KENAO. For this study, primary data was collected using interview guides administered to the respondents who were senior management at the corporate level which comprise of; Deputy Auditor Generals and Directors of Audit. Content analysis was used to analyze the data through describing phenomena, classifying it and seeing how the concepts interconnect as indicated by the respondents

The study established that KENAO has a strategic plan with a mission, vision and list of core values, it further established the factors that influenced adoption of strategic planning practices, the indicators of proper implementation and the deficiencies in implementation. The study recommends greater participation by all the stakeholders in the implementation process and also proper mechanism to monitor and control the implementation of the strategic plan be put in place.

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LIST OF ABBREVIATIONS

ADA	Assistant Director of Audit
C& AG	Controller and Auditor General
DA	Director of Auditor
DAG	Deputy Auditor General
DDA	Deputy Director of Audit
ICPAK	Institute of Certified Public Accountants
INTOSAI	International Organization of Supreme Audit Institutions
KENAO	Kenya National Audit Office
KNAC	Kenya National Audit Office Commission
PA	Principal Auditor
PAC	Public Accounts Committee
PIC	Public Investment Committee

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Strategic planning is the cornerstone of every organization without which the organization will never know where it is going or whether it will ever get there. An important concept of strategic planning is an understanding that in order for an organization to flourish, everyone needs to work to ensure the team's goals are met (Johnson and Scholes, 2003). In institutions of higher learning for instance, strategic planning is a formal process designed to help a higher learning institution identify and maintain an optimal alignment with the most important elements, the environment within which the learning institution resides. This environment consists of the political, social, economic, technological, and educational ecosystem, both internal and external to the university.

Today, organisations in developed and developing countries operate in a more turbulent, complicated and regulated environment. Thus, the goal of most organisations is to establish distinctive or unique capabilities to gain a competitive advantage in the marketplace through formulating and implementing effective strategic plans. However, increased volatility of the business environment makes strategic planning more difficult; rapid change requires strategies that are flexible and creative, characteristics which are seldom associated with formalized planning, that is, strategic planning is a 'calendar-driven ritual' (Hamel, 1996). Eisenhardt (1989), points to the advantages of 'semi-

coherent' strategic planning practices that are unpredictable, uncontrolled, inefficient, proactive, continuous and diverse.

There is a general agreement among strategic planning researchers that the strategic planning consists of three major components; formulation (which includes developing a mission, setting major objectives, assessing the external and internal environments, and evaluating and selecting strategy alternatives), implementation and control (Hopkins and Hopkins, 1997). This chapter introduces the study and justifies why the topic needs to be researched on; it is thus structured into the background of strategic planning practices in the Kenya National Audit Office, public sector reforms, statement of the problem and the objectives of the study.

1.1.1 Strategic Planning Practices

Strategic planning's roots are in the arena of large-scale military operations and it can be defined as the fit between an organization and its environment. It is a top-down approach concerned with the long-term mission and objectives of an organisation, the resources used in achieving those objectives, and the policies and guidelines that govern the acquisition, use, and disposition of those resources (Hamel, 1996). It must also take into account the opportunities available to the organisation, and an assessment of its ability to exploit those opportunities with a view to gaining a distinct competitive advantage. Simply, strategic planning determines where an organization is going over the

next year or more, how it's going to get there and how it'll know if it got there or not (Prajogo and McDermott, 2005).

Johnson and Scholes (2002), view strategy as the direction and scope of an organization over the long-term which achieves advantage for the organization through its configuration of resources within a changing environment and fulfill stakeholders expectations. From the perspective of classical strategic management theory, strategy is considered a deliberate planning process (formal), initiated by top management (top-down), based on an elaborate industry analysis (rational) and aimed at designing a cohesive grand strategy for the corporation (consistency) David (2007).

Quinn (1993), argue that if a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength. Hamel and Prahalad (1989) views organizations as composed of many individuals all of whom are engaged in making decisions that must be coordinated. For strategy to provide such coordination requires that the strategy process acts as a communication mechanism within the firm. Such a role is increasingly recognized in the strategic planning processes of large companies. The shift of responsibility of strategic planning from corporate planning departments to line managers and the increased emphasis on discussion the businesses and the corporate headquarters as opposed to the formal approval of written plans are part of this increased emphasis on

strategic planning as a process for achieving coordination and consensus within companies (Barker, 1992) The Focus of a strategic plan is on the entire organization. There are a variety of perspectives, models and approaches used in strategic planning. The way that a strategic plan is developed depends on the nature of the organization's leadership, culture of the organization, complexity of the organization's environment, size of the organization, expertise of planners etc. For example, there are a variety of strategic planning models, including goals-based, issues-based and scenario based, however some analysts would assert that scenario planning is more of a technique than a model (Baxter and Jack 2008).

Goals-based planning is probably the most common and starts with focus on the organization's mission and vision and or values), goals to work toward the mission, strategies to achieve the goals, and action planning (who will do what and by when). Issues-based strategic planning often starts by examining issues facing the organization, strategies to address those issues, and action plans.. Some planners prefer a particular approach to planning example appreciative inquiry. Some plans are scoped to one year, others three years, and some to five to ten years into the future. Some plans include only top-level information and no action plans (Emily, 2006).

1.1.2 Public Sector Reform in Kenya

Public Service Reforms in Kenya started immediately after independence. The Sessional Paper No. 10 of 1965 on African Socialism and Its Application to Planning in Kenya outlined the first institutional framework for reforms. The reforms were aimed at

addressing three challenges facing the government at the time namely disease, poverty and illiteracy.

Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth later paved the way for wider public service reforms. Notable among these was the Structural Adjustments Program which aimed at lessening Government control on the economy, recognizing and harnessing the potential of the private sector as the engine for growth, and staff retrenchment as a way of reducing the civil service wage bill.

Noting that Public Service efficiency sets standards for other sectors, the Government launched the Civil Service Reform Program in 1993 to enhance public service efficiency and productivity. The reforms were expected to facilitate equitable wealth distribution necessary for poverty alleviation and create an enabling environment for investment and enhanced private sector growth. This was to be implemented in three phases namely; cost containment, performance improvement and consolidation and sustenance of gains made by reform initiatives. While phases 1 and 2 succeeded in reducing the Civil Service workforce by 30% (from 272,000 in 1992 to 191,670 in 2003), productivity and performance remained an illusion. In the year 2003 the Government of Kenya underscored its strategic perspective that efficient and effective public service management was a crucial framework for achieving rapid and sustained economic growth and poverty reduction which was the highlight of the Economic Recovery Strategy for Wealth and Employment Creation (Kippra, 2006). This paved way for introduction of

Results-Based Management guided by the Economic Recovery Strategy (ERS) for Wealth and Employment Creation (2003-2008).

The Public Service Reform and Development Secretariat (PSR&DS) was established in the Cabinet Office, Office of President in September 2004 with the mandate to coordinate all public sector reforms and mainstream Results Based Management (RBM) in the Public Service. The PSR & DS seeks to transform the Public Service from a process orientation to a results management culture to facilitate the achievement of the Economic Recovery Strategy and the attainment of the Millennium Development Goals. It also seeks to build the Institutional and leadership capacity for a results based management culture in the public service (<http://www.psrpc.go.ke/>).

In a paper to stakeholders Ntimama (2005) noted that Public institutions have since 2003 adopted reform strategies in order to improve service delivery in the public service. Some of these strategies include; Rapid Results Approach; Performance Contracting; Citizen Service Delivery Charters; Transformative Leadership, Values & Ethics and Institutional Capacity Building .

1.1.3 The Kenya National Audit Office (KENAO)

The Office of the Controller and Auditor General was established in 1955 under the Exchequer and Audit Act, Cap 412 and was subsequently entrenched in the Constitution at Independence in 1963. The Controller and Auditor-General, who enjoys security of tenure, is appointed by the President and vacates the office when he attains the prescribed

retirement age which was set at 65 years in 2004. The Office is governed by three statutes, which are, The Constitution of Kenya, The Exchequer and Audit Act, Cap 412 and The Public Audit Act, 2003. Following the enactment of the Public Audit Act 2003 (which became operational in January, 2004) a Kenya National Audit Commission chaired by the Controller and Auditor-General and the Kenya National Audit Office (KENAO) were established.

Prior to the enactment of the Public Audit Act, 2003, the organisation had previously been divided into two separate independent organisations, namely The Office of the Controller and Auditor General, and The Auditor General, Corporations. The Office of the Controller and Auditor General was in charge of the audit of Government Ministries and agencies, while the Auditor General, Corporations was in charge of the audit of State Corporations. The two organisations were merged in 2004 to create KENAO, and the audit of Local Government was also introduced. The office, headed by the Controller and Auditor General is currently structured into five departments each headed by a Deputy Auditor General. These five departments are: Finance Administration and Human Resource, Central Government, Local Authorities, State Corporations, and the Specialized Audits department.

The mandate of KENAO is enshrined in the Constitution of Kenya and enabling Acts of Parliament. It is to carry out audits, within statutory set deadlines, and to assess the economy, efficiency and effectiveness of the Central Government, courts, local authorities, National Assembly, statutory bodies/state corporations, commissions and

other government agencies, and submit reports to Parliament. The following are the core functions of KENAO: to approve withdrawals of finances from the Consolidated Fund; to ascertain that all funds that have been appropriated by Parliament are applied to the purpose for which they were intended; to audit and report to the National Assembly on the Financial Statements of Central Government, all Courts, National Assembly, State Corporations and Commissions, and Local Authorities at least once in every year; to carry out Regulatory Compliance Audit through ascertainment of compliance with legislation, policy, rules and regulations; to assess the extent of economy, efficiency and effectiveness in the management of public resources through Performance Audit (Value for Money); and to carry out Environmental Audit focusing on the environmental impact assessment for sustainable development and resource management. The last three functions are fairly new areas which have brought about changes in the organization.

KENAO is a public sector organization, being the Supreme Audit Institution (SAI) of Kenya. The Government of Kenya has been increasingly concerned with adapting and developing structures and values of public service institutions that will achieve greater efficiency and more responsiveness to public needs through widespread public sector reforms. There has been a rapid shift in the economic and social environment all over the world, more so due to globalization and enhanced public awareness of civil rights and obligations with regard to governance and public service, and the role of the public sector has evolved from a mere regulator to one that secures the welfare of every member in society. In this regard, KENAO plays a vital role in promoting accountability and good governance through the financial, compliance and performance evaluation audits, thus

promoting economic, efficient and effective use of resources in the public sector in Kenya as well as supporting the public service towards results based performance. In an effort to respond and sustain its capabilities in meeting the challenges posed by demands for accountability and good governance, KENAO has embarked on a deliberate strategic planning process which has affected the entire organization structure, the methods of carrying out its mandate, and the staff.

1.2 Statement of the Problem

KENAO being a Government agency has not been left behind and as such the office has been transformed from a silent, unknown office that had little value addition in financial management to a robust, dynamic and vibrant office that produces useful reports in financial management and fighting corruption. It is in this context that the study sought to investigate how KENAO has fared in the process of strategic planning and what practices has it adopted in order to cope with the changing environment. This is the knowledge gap that the study sought to fill.

While several studies have been done in Kenya on the strategic planning practices, most of them have been too general to elicit a comprehensive view on strategic planning practices adopted by specific Government agencies. Emily, (2006), carried out a research on ‘Strategic Planning Practices in Public Secondary Schools in Kenya’ and pointed out that strategic planning practices provide a mechanism for coordinating decentralized strategy formulation within a structure of demanding performance targets. However, the

study shows that these strategic planning practices fostered adaptation and responsiveness, but showed limited innovation

Ogari, (2005), stated that strategic planning in Kenyan public agency consists of five stages environmental scanning, evaluation of issues, forecasting goal setting, implementation and monitoring. This study seeks to add on to the existing knowledge by narrowing its contextual scope to the KENAO. Apart from investigating the strategic planning practices adopted by KENAO, the study will also focus on the challenges facing strategic planning practices hence cutting it from the previous studies that focused solely on the strategic planning practices.

As much as strategic planning is important, what is of more importance is how it is practiced in the different institutions or organizations (Porter, 2003). The study's aim was to determine strategic planning practices adopted in KENAO as a player in the public sector.

1.3 Research Objective

The objective of the study was to determine the strategic planning practices adopted by the Kenya National Audit Office.

1.4 Importance of the study

The study will act as a management reference point for strategic planning being put in place; it will enlighten the management of KENAO in establishing whether

implementation of the strategic intent plan for the period 2007-2012 is progressing successfully.

To the Government, the study will help in overall Government strategic planning. This will involve determining how resources will be allocated to KENAO. This will include staffing needs and capacity development in terms of training and retraining of staff. The Government will also be in position to determine if the office will require technical persons from other professionals. Other government departments like the Efficiency Monetary Unit will also benefit from this study.

The study will also be importance to other parties like the development partners such as World Bank who provide support to the office. Other interested parties include the Institute of Certified Public Accountants of Kenya (ICPAK) and International Organization of Supreme Audit Institutions (INTOSAI) which require professionalism and best practices among its members.

The study will be valuable to the academicians and researchers in Kenya as it will go a long way in contributing to the existing body of knowledge on strategic management and also form good literature upon which further researches on strategic planning practices will be based. The results will provide insight to understand how public organizations should prepare themselves to successfully implement strategic plans in order to achieve their objectives.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This chapter presents the reviews studies that have been done and theories advanced on strategic planning practices. The chapter is hence broken down into concept of strategic planning, strategic planning process and strategic planning practices

2.1 Strategic Planning Defined

Cole (1996) defined strategic planning as a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does and why it does it. To deliver the best results and requires broad yet effective information gathering, development and exploration of strategic alternative, and an emphasis on future implications of present decisions. Strategic planning also defined as process that involves the review of market conditions, customer needs, competitive strengths and weaknesses, socio-political legal and economic conditions, technological development and the availability of resource that lead to the specific opportunities or threats facing the organization plays a key roles in achieving a balance between the short term and the long term.

This definition is further reinforced by Grant (1998) who states that strategic planning involves decision making about long term goals and strategies and therefore has a strong external orientation.

Strategic planning therefore implies an attempt to alter a company's strength relative to that of its competitors, in the most efficient and effective way. Strategic planning focuses on the direction of the organization and actions necessary to improve its performance. It is the process by which firms derive a strategy to enable them to anticipate and respond to the changing dynamic environment in which they operate (Hewlett, 1999). According to Johnson and Scholes (1997), strategic planning is the direction and scope of an organization over the long term; which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and to fulfill stakeholder expectations.

Although much has been argued about culture and its impact on management, strategic planning practices in an institution are affected more by the institutional environment like government intervention, politics, state business relations, incentives than societal values. Strategic planning has been associated with the field of strategic management from its earliest foundations, (Hambrick, 1980). It has also been known under various labels encompassing long range planning, corporate planning, and strategic management in addition to strategic planning.

From the perspective of classical strategic management theory, strategy is considered a deliberate planning process, initiated by top management, based on an elaborate industry analysis and aimed at designing a cohesive grand strategy for the corporation, David (2007), points out that when the term strategic planning is used the intent is to convey that a firm's strategic planning process involves explicit systematic procedures used to

gain the involvement and commitment of those principal stakeholders affected by the plan Mintzberg (1994).

2.1.1 Approaches of Strategic Planning

In the strategic planning process, the planners need to pay attention to the structure of the planning process, which refers to the preferred activities, their sequencing and the associated tools. Then there is the matter of time made available for the entire process and for each phase in the process. The allocation of time overall and to the various planning phases can substantially affect the quality of interaction and output. The dominant conception may be assumed or it may be an openly stated intention. For example, the guiding intention may be to create a 'blueprint' or a strategic plan that assumes, a comprehensive strategic plan based on systems analysis and rational design, a decision-centered strategic plan that functions as a guide with opportunity for incremental change/ongoing adjustment, a 'Libertarian' strategic plan that sets only broad rules or limited frameworks (Emily, 2006).

Khakee and Stromberg (1993) points out that the position taken will significantly influence the approach and the outcome of the process. Equally important is how the participants communicate and how conflicts within the group or deadlocks are resolved. As a result of these choices and also the influence of the facilitator, reflection may show that the planning process was characterized by; a more focused and a more synoptic treatment of the scope; a more simplifying and a more elaborating treatment of

complexity; a more reactive and a more interactive treatment of conflict; a more reducing and a more accommodating treatment of uncertainty.

The process design choices and also the orientation or personal approach of facilitators in each phase will more or less subtly influence how the planning process proceeds. Khakee and Stromberg (1993) stress the importance of a 'process leader' who is capable of coordinating the entire process.

Strategic planning has been associated with the field of strategic management from its earliest foundations. Strategic planning has also been known under various labels encompassing long range planning, corporate planning, "and strategic management" in addition to strategic planning. From the perspective of classical strategic management theory, "strategy is considered a deliberate planning process (formal), initiated by top management (top-down), based on an elaborate industry analysis (rational) and aimed at designing a cohesive grand strategy for the corporation. Mintzberg and Lampel, (1999) point out that when the term strategic planning is used the intent is to convey that a firm's strategic planning process involves explicit systematic procedures used to gain the involvement and commitment of those principal stakeholders affected by the plan.

2.2 Strategic Planning Process

The strategic management process is concerned with establishing objectives and goals for an organization and maintaining a set of relationships between the organization and the environment. This enables it to pursue its objectives that are consistent with

organizational capabilities, and continue to be responsive to changing business trends (Ansoff, 1990). The strategic management process is based upon the belief that key external and internal events and trends should continually be monitored. Organizations should pursue strategies that take advantage of external opportunities, minimize the impact of external threats, capitalize on internal strengths and mitigate internal weaknesses (Cole, 1996). Cole (1996) observes that strategic management process aims at identifying, articulating or developing an organization's uniqueness and wholeness. It also analyses business opportunities and threats, internal strengths and weaknesses or resource gaps and current values and management philosophy.

Ogari, (2005), stated that strategic planning in Kenyan public agency consists of six stages environmental scanning, evaluation of issues, forecasting goal setting, implementation and monitoring. The strategic management process can be depicted as a series of steps. These components are: Strategy formulation (company vision and mission, company objectives and internal analysis), situation analysis and environmental scanning (competitor analysis, industry analysis, market analysis and strategy selection); strategy implementation and strategy evaluation and control (Pearce and Robinson,1997).The process of strategic management involves strategy formulation, implementation, evaluation and control of actions that will enable an organization to achieve its objectives. A study on the contribution of formal planning to decisions revealed that planning systems studied contributed more to decisions that are considered important, risky, of global nature and related to divestments (Powell,1992).

Environmental scanning (analysis) is the process by which strategists monitor the environmental sectors (economic, political/legal, social/cultural, technological or ecological) to determine opportunities for and threats to the organization (Pearce and Robinson, 1997). The scanning gives planners time to anticipate opportunities and plan to take optimal responses to them thus developing appropriate measures to mitigate negative deviations. If a firm ceases to adjust its strategy to the environment, the result is minimal achievement of corporate objectives. Before an organization can begin to formulate strategy, management must scan the environment in order to identify opportunities, threats, strengths and weaknesses of the organization. To be successful over time, an organization must be dynamic and change oriented. There must be a strategic fit between what the customer wants and what the organization has to offer, as well as between what the organization needs and what the market can provide (Powell, 1992).

Strategy formulation is the development of long range plans for effective management of business opportunities and threats, in light of an organization's strengths and weaknesses. It is also called strategic or corporate planning. It includes environmental scanning, defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines. Henderson, Venkatraman and Oldach, (1996) argued that both organizational structure and competition are clearly important in shaping strategy and performance.

According to David (2007), strategy implementation includes organizing, motivating and staffing. Implementation of the chosen strategy is by any measure one of the most vital phases in the decision making process. Strategy implementation embraces all of those actions that are necessary to put the strategy into practice. David (2007) also states that strategies are not the end result of the strategic management process. Strategic thought has to be translated into strategic action. Once the strategic planning process is complete, the strategy must be implemented. No matter how creative and well formulated the strategic plan, the organization will not benefit if it is incorrectly implemented (Jay and Alec, 2006). Strategy implementation involves several dimensions of an organization. It requires changes in an organization's behaviour, which can be brought about by changing one or more dimensions, including management's leadership ability, organizational structure, information and control systems, human resources and production technology (Hamel 1996).

In strategy implementation, the management translates strategies and policies into action through development of programs, budgets and procedures. Although implementation is usually considered after strategy has been formulated, implementation is key part of strategic management. Effective leadership is necessary for strategy implementation. Managers have a role to influence members of an organization to adopt the behaviour needed for strategy implementation. Proper management involves communication and motivation as well as changes in corporate values and culture. Top managers seeking to implement a new strategy may find it useful to build coalitions and persuade middle managers to go along with the strategic plan and its implementation. If leaders involve

other managers during strategy formulation, implementation will be easier because managers and employees will better understand, and be more fully committed to the new strategy (Miller and Friesen, 2000).

Organizational structure is typically illustrated in an organization chart. This structure indicates individual managers' responsibilities and degree of authority and incorporates jobs into departments. Structure also pertains to the degree of centralization and whether a functional, divisional or matrix approach will be utilized. A proper mix of information and control systems must be developed to support the implementation of the strategic plan. Managers and employees must be rewarded for adhering to the new strategy and making it a success, or the intensity of implementation will be reduced substantially (Powell, 1992).

The human resource function plays a key role in strategy implementation. This function involves recruitment, selection, training, transfers, promotion and layoffs of employees to properly implement the strategic plan. New strategy may foster resentment and resistance among other managers and employees, and this is a matter that must be resolved quickly or it may hinder strategy implementation. Technology relates to the knowledge, tools and equipment used to accomplish an organization's assignments. If an organization adopts a strategy of producing a new product, managers must often redesign jobs and construct new buildings and facilities. New technology, because of its efficiency, may also be required for implementing a low-cost strategy.

As with other aspects of strategy implementation, the appropriate level of technology must be found for proper implementation of the strategic plan (Porter, 1980). According to Pearce and Robinson (1997), evaluation and control is the process by which an organization's activities and performance results are monitored and actual performance compared with desired performance. In evaluation of strategy, managers try to ensure that the strategy chosen is properly implemented and is meeting the objectives of the organization. Control and evaluation process helps strategists monitor the progress of a plan. Evaluation and control processes are set up to ensure that the variance between expected and desired objectives will be close according to the strategy (Pearce and Robinson, 1997).

Though the above information may portray formality in strategic management, a number of factors determine how much formality is needed. These factors include the management style, complexity of the business environment and the size of the organization (Pearce and Robinson, 1997). Although evaluation and control is the final phase of strategic management, it can also pinpoint weaknesses in previously implemented strategies and thus stimulate the entire process to begin again.

2.3 Strategic Planning Practices

2.3.1 Developing Strategy

One of the commonly cited reasons for strategic planning is to enhance organizational performance. Well designed strategic plans provide an operational framework that allows

the organization to enjoy distinct competitive advantages, thus experiencing improved performance (Porter, 1997). In some cases, the objective might be to trim overhead or reorganize existing resources within the same general strategic domain. In other cases, the organization might be intent on diversifying its products or services (Byrne, 1996). Another rationale for developing strategic plans could be to provide staff members within the organization information about the direction of the organization (as spelled out by the strategic plan) Researches show that organizations practice strategic planning in the way they do the situation analysis where they address the question of where are we now?, how they come up with the mission and vision for the institution, that is, where do we want to be and what it hopes to do to get where they would want to be (Johnson, 1987). Emily, (2006), pointed that strategic planning practices provide a mechanism for coordinating decentralized strategy formulation within a structure of demanding performance targets.

2.3.2 Setting proper strategies

The main aspect of strategic planning is in its formulation, implementation and the evaluation of the strategies. As much as the strategic planning practices are quite clear and specific, there is no one clear way advocated by scholars on how institutions should go about in conducting or practicing its strategic planning. Different authors and scholars have advanced that strategies can form implicitly as well as be formulated explicitly (Johnson and Scholes 1997). An additional, but equally probable, rationale for developing strategic plans is to appease different constituencies of the organization. A not-for-profit organization, like a chamber of commerce for example, might develop a

strategic plan to enhance the likelihood that the members of the local community or members of the political community will have favorable impressions of the organization.

Finally, organizations might also develop strategic plans to appease funding sources or lending institutions. For example, a business with a relatively short financial track record might need a line of credit to fund future growth. The lending institution could, and probably would, require some type of business plan or strategic plan from this organization to protect the interests of the institution. To achieve improvement in performance, however, strategic plans must move beyond incremental improvements embodied in plans of the past to evoke revolutionary change within organizations, changes that make the organization unique and different (Porter, 1997).

Hamel (1996) also supported this need for revolutionary change by citing the widespread, confused change that is taking place across so many industries. It is important to note however, that the mere presence of a good plan does not necessarily indicate that success is certain or that improvement in financial performance will be realized, (Mintzberg, 1993). Strategic planning is a commonly used management process, employed by managers in both the private and public sector to determine the allocation of resources in order to develop financial and strategic performance. There appears to be general agreement among strategic planning researchers that the process consists of three major components; firstly, formulation this including setting objectives and assessing the external and internal environments, secondly, evaluating and selecting strategic alternatives as well as implementation and control (Hopkins and Hopkins, 1997).

Mintzberg (1994) views planning strategy as precise intentions that are formulated and articulated by central leadership and backed up by formal controls to ensure their surprise free implementation in an environment that is controllable and practicable. In planning few, strategies are proposed to develop through a rational and formalized sequence of analytical and evaluative procedures. The command view is where by strategy develops through the direction of an individual or group and not necessarily through formal planning. The strategy would be an outcome of an autocratic leader or dominant leader who becomes personally associated with strategy development of the organization. Such individuals may be the owner or co-founder or political appointee of the organization. Usually such organizations are small enterprise or public sector organization

2.3.3 Need for development of objectives

Herold (1972) observed that planners were better than non-planners at identifying opportunities, setting goals and objectives, and setting proper strategies and effective tactics to achieve them as evidenced by their higher growth rate and higher operational efficiency ratios. He also points out that planners are also more aggressive than non-planners in pursuit of business objectives. Imposed strategy the external environment dictates patterns in the actions either through direct imposition or through implicating pre-empting or bounding organizational choice (Mintzberg 1994). Strategic planning processes will be designed to fit the specific need of the organization. It's argued by (Porter, 1980) that every successful model must include vision and mission, environmental analysis, setting objectives and strategic analysis choice.

2.3.4 Identification of Vision and Mission for Organization

Identification of the institutions vision and mission is the first step of any strategic planning process. What is our business and what will it be? (Thompson, 1993). This help in infusing the organization with a sense of purpose and direction and giving it a mission. A mission is a statement broadly outlines the organizations future course and serves as a guiding concept. Once the vision and mission are clearly identified the institution must analyze its external and internal environment (Kaplan and Norton, 2001).

The environmental analysis performed within the frame work of the SWOT analysis, analyses information about organization's external environment; economic, social, demographic, political, legal, technological and internal organizational factors. Planning is a conscious systematic process during which decisions are made about mission, values, goals, strategies priorities and activities that an organization and by extension industry players will pursue if they are to secure and remain relevant in the future, amidst a constantly volatile environment. Kotha and Swamidass (2000), define performance as the degree of accomplishment of tasks that make up a job and is measured in terms of results (output) performance may be broadly regarded as a record of outcomes achieved over a period of time and provides "the strongest linkage to the strategic goals of the organization, customer satisfaction and economic contributions" (Armstrong 2000)

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

The chapter presents the research design and methodology of the study. In this stage, decisions were made about how research was to be executed and how respondents were to be approached, as well as when, where and how the research was to be completed. The chapter therefore entails the way the study was designed, the population, the data collection techniques and the data analysis procedure.

3.1 Research Design

This study was a case study since the main purpose of the study was to describe the strategic planning practices in KENAO. According to Kothari (1990) a case study is a powerful form of qualitative analysis. The unit of study could be an institution, family, district, community, or person. Baxter and Jack, (2008) argue that a case study is a form of qualitative analysis where studies are done on institutions and from the study, data generalization and conclusions or implications are drawn.

The study method gave in-depth information on the strategic planning practices adopted by KENAO. This research was therefore free from any material bias and enabled the researcher to study intensively a particular unit.

3.2 Data Collection

Strategic planning is normally conducted at the corporate level of management in any organization. For this study, primary data was collected using a questionnaire administered to 12 senior management officers at the corporate level which comprise of; Deputy Auditor Generals and Directors of Audit. A questionnaire is a set of a research instrument consisting of a series of questions to be asked during an interview for the purpose of gathering information from the interviewees. The researcher booked appointments with each senior officer while drop and pick method was used for those who were not available for interviews. Secondary data that was of relevance to the study was collected from KENAO manuals and quality assurance reports.

3.4 Data Analysis

The data collected from the respondents was qualitative in nature. Content analysis was used to analyze the data through describing phenomena, classifying it and seeing how the concepts interconnect as indicated by the respondents. Content analysis is defined as a technique of making inferences by systematically and objectively identifying specific characteristics of messages and using the same to relate to trends.

This approach is preferred because it gives results that are predictable, directed and comprehensive. Content analysis also enabled the researcher to shift through large volumes of data with relative ease in a systematic fashion. It provided the researcher with a qualitative picture of the respondent's concerns, ideas, attitudes and feelings.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presents the discussion and conclusion of the study. From the study, the target population was twelve composed of five Deputy Auditor Generals and seven Directors of Audit, ten of the respondents responded and returned the questionnaire. This constituted 83 per cent response rate.

4.1 Demographic Information

The respondents were requested to indicate the position they hold in the Kenya National Audit Office. From the findings, the respondents were Deputy Auditor Generals and Directors of Audit who are in charge of the main departments and Divisions respectively within KENAO. This implies that the information on strategic planning practices in the KENAO was collected from the relevant personnel thus credible for the study.

Further, they were requested to indicate the period of time they had been in working in KENAO. From the findings, seven of the respondents indicated that they had been working for more than 10 years; the remaining 3 indicated that they had been working between 5 to 10 years. This clearly indicated that majority of the respondents had been working for more than 5 years and had experiences on the strategic planning practices being adopted by the office.

4.2 Does KENAO have a strategic plan?

The respondents were requested to indicate whether the office had a strategic plan. From their responses, all the respondents indicated that the office does have a strategic plan that is being implemented in the period 2007-2012. They indicated that this plan was developed by senior officers at KENAO.

4.2.1 Does KENAO have a mission, vision and values?

All respondents were in agreement that indeed KENAO had a mission, vision and core values, they also indicated that these are reviewed every five years.

The vision of the office was reported as “To be the lead agency in promoting good governance and effective accountability in the management of public resources” while the mission is “KENAO is a statutory agency which seeks to build professional excellence in the provision of audit services through objective, reliable and timely audit reports as a contribution to enhanced accountability and transparency in the use of public resources.”

The core values of KENAO were identified as Integrity, Professional Excellence, Cooperation, Creativity, Confidentiality and Objective and independence.

4.2.2 Factors that influence strategic planning practices at KENAO

The respondents were requested to indicate the factors that influence strategic planning practices at KENAO. From their responses, majority of the respondents indicated that Government policies and internal managerial policies influence strategic planning practices at the office. The respondents also indicated that emergence of new audit fields like environmental audit; public debt and quality assurance also influence strategic planning. Other factors cited were pressure from the public for better accountability in the public sector and for timely audit reports, need to benchmark with peer institutions within the INTOSAI community, increased involvement and participation by other related stakeholders including PAC, PIC, ICPAK and other professional bodies.

4.2.3 Does management structure influence the strategic planning practices?

The respondents were requested to indicate whether the management structure of the office influences the strategic planning practices. All the respondents indicated that KENAO culture and management structure influence the strategic planning practices. The respondents explained that the structure in place indicates individual responsibilities and degree of authority and that the office is divided into five departments with different mandates thus greatly influencing strategic practices. The respondents also indicated that the office is highly centralized and therefore coordination of activities designed to achieve a strategic goal is easier.

The respondents explained that effective leadership was necessary for strategy implementation as such the respondents indicated that the top management of the office was comprised of professionals with vast experience in the field of audit and financial management. The study found out that for uniformity of practice, decisions made by the senior management are communicated to all staff formally through circulars.

4.2.4 Stages or processes that the strategic plans pass through

The respondents were requested to indicate the approach and stages that the strategic plans pass through at the office. From the findings, majority of the respondents indicated that a formal process was followed in developing its strategic plan. The process had six stages as discussed in the ensuing paragraphs.

The initial stage is an analysis of the environment both internal and external to establish what ground the office is standing on. The respondents indicated that after the analysis, a team of DAG's and DA's conducted a projection of where they expect the office should be in five years, visions and missions were formulated in this stage. Nine strategic goals were identified as being key drivers to take the office forward. Activities under each goal were identified in consultation with other lower level staff members like ADA's and principal auditors. A team composed of a few select senior officers were given the responsibility of coming up with a detailed strategic plan complete with its implementation matrix. The final document was endorsed by the five DAGs and then

forwarded to the Controller and Auditor General for approval and forwarding to the KENAO Commission.

However, two of the respondents were of the opinion that strategies in the office were formulated by only a select few and as such the end product was not agreed upon by all the relevant stakeholders and implementing parties. They cited for instance, the first goal of delivering quality and timely audit reports as being skewed towards the side of the office yet the reports are generated from documents availed by clients who may not be aware that the office intends to speed up the time required and therefore some adjustments on their side is required too.

4.3 Whether KENAO had a planning committee during strategic planning.

The respondents were requested to indicate whether the office had a planning committee during formulation of the strategic plan. They respondents were in agreement that KENAO has a planning committee comprising of C& AG, three DAGs and, three DAs who meet on quarterly basis to assess the progress of implementation.

4.4 Is there a strategy implementation and monitoring committee?

The respondents were requested to indicate whether there is a strategic plan implementation and monitoring committee and how often does it give its feedback report to the management. A majority of the respondents indicated that there is a strategic plan

implementation and monitoring committee that oversee that implementation of strategic plan for the years 2007-2012.

The respondents indicated that the committee plays a vital role in promoting accountability and good governance, compliance and efficient and effective use of resources in implementation of the activities under each strategic objective. The committee meets semi annually and reports to the C& AG and the KNAC. Twenty per cent of those who responded however indicated that they were not aware of there being an implementation and monitoring committee other than the quality assurance department.

4.5 Does KENAO conduct situational analysis?

The respondents were requested to indicate whether the management conducts environmental analysis during formulation of strategic plans. From the findings, the respondents indicated that management did conduct an analysis of both its external and internal during formulation of strategic plans. The respondents explained that during the preparation of the current strategic plan an external environment analysis was conducted and the opportunities and threats to the office were identified. The respondents also indicated that external environment consists of the political, social, economic and technological which needed to be assessed for effective implementation of strategic planning practices in the KENAO.

The study also revealed that internal analysis was also conducted before the current strategic plan was formulated, the following strengths were identified as being key to KENAO's success; higher level of independence from the enactment of the Public Audit Act, 2003, considerate support from the government and the INTOSAI community, political goodwill and support from the accountability and good governance agencies, ongoing reforms in KENAO including creation of new audit units and reorganization of the office, support from the media and the civil society, donor support and improved communication and cooperation between KENAO auditee's and other stakeholders; including PAC, PIC, ICPAK and other professional bodies.

The respondents indicated that KENAO has to operate within the Government structures thus it has to ensure that it has adequate resources, competent staff, effective communication, and efficient leadership in order to achieve overall Government strategic plan.

4.6 Does KENAO review the strategies it has formulated?

The respondent was requested to indicate how often the strategies were reviewed. From the findings, the respondents indicated that the strategies are reviewed after every five years. Other respondents indicated that strategies are reviewed depending on the environmental changes and due to Government reforms that may occur unexpectedly.

4.7 Does strategic planning practices enhance organization performance?

The respondents were requested to indicate whether strategic planning practices adopted enhance the organizational performance. The respondents were in unison in supporting the statement that with strategic planning the office performance has improved. From the responses strategic planning has helped in meeting statutory deadlines while at the same time production of coherent reports thus improved output from the office. The office has shared values of professionalism which has been instilled in the staff members with a view to improve their work as auditors.

The respondents indicated that a peer review conducted in 2009 by other INTOSAI peers indicated that there was a great improvement in the audit file documentation and preparation. From the findings, the respondents indicated that through strategic planning, KENAO was able to hire highly qualified auditors; this was in line with the second goal in their strategic plan. This clearly indicate that strategic planning practices positively affects organizations' performance, or more specifically, the amount of strategic planning an organization conducts positively affects its overall performance.

4.8 The key indicators of proper implementation of the plan

The respondent was requested to indicate the key indicator that the strategic plan is being implemented as envisaged. The main indicators that the plan is being implemented were pointed out as comprising; issuance of audit reports within the statutory and

administrative deadlines, production of policy documents to guide issues that the office deals with outsiders, production of guideline documents, production of comprehensive audit programs to cover all areas of audit, establishment and operationalization of specialized audit units, peer review reports, number of qualified and registered accountants in the office and acquisition of new ICT equipments and training of staff.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter provided the summary of the findings from chapter four, and also it gives the conclusions and recommendations of the study. The objective of this study was to determine the strategic planning practices adopted by the KENAO.

5.1 Summary of Findings

The study established that KENAO has adopted strategic planning in an effort to make fundamental decision and actions that shape and guide the organization. From the findings, majority of the respondents indicated that senior officers in the office were involved in the formulation of the mission, vision, shared core values and the entire strategic plan for the year 2003-2008 and then the revised one of 2007-2012.

The strategic plan implementation is continuously monitored and the plan is reviewed after every five years. It was found out that decisions made in furtherance to achievement of strategic goals set are communicated formally to all the staff members, external and internal analysis are conducted when developing goal and strategies to achieve the goals.

Further, the study established that Government policy and reform, changing environment in which the office was operating under, high expectation from the public, peer institutions within the INTOSAI community and professional bodies and other

Government related stakeholders were among the factors that influenced adoption of strategic management practices.

The study found out that KENAO divided the office into five departments which are then subdivided into divisions. Individual responsibilities and authority of all officers are clearly stated in the structure, it was also found out that the office is highly centralized and therefore coordination of activities designed to achieve a strategic goal is easier. Decisions and policies to implement activities are communicated formally through circulars to all members of staff, this ensures uniformity of activities and unity of command.

From the findings, it is evident that a formal planning process has been used in strategic planning. Further, the study established that the office has managed to bring forward the statutory deadlines for issuing its annual audit reports. A peer review report by INTOSAI indicated a great improvement in audit documentation and quality of work. This indicates that organization performance has improved with strategic planning.

The study established that issuance of audit reports within the statutory and administrative deadlines, production of policy documents to guide issues that the office deals with outsiders, production of guideline documents, rating by peer institutions and acquisition of new ICT equipments and training of staff were the main indicators that the plan is being implemented.

5.2 Conclusion of the Study

The study sought to establish the strategic management practices of KENAO. It was noted that a formal process that has borrowed heavily on the concepts of strategic management was being followed by the office. The study concludes that the office follows the strategic management process as espoused in the theories of strategic management.

By having a strategic plan for the years 2007-2012, the office has shown commitment towards embracing strategic management practices fully. It was also noted that the office has distributed booklets to all members of staff, this was seen as a positive step towards enlightening and instilling the core values and the mission and vision in their minds. Some deficiencies however, are evident in the manner in which the process is being conducted as it was noted that middle level and tactical managers are not very much involved.

It was also noted that although some respondents indicated that there was an implementation and monitoring committee some were unaware of its existence implying that the committee may not be pro active enough to be noticed by all the players in the process.

5.3 Recommendations

The study established that the office carries out the strategic planning as evidenced by the practices identified in the study. Further, the factors that influence the strategic planning

and the key indicators were identified. The study therefore makes the following recommendations:

The office needs to do more as concerning the enlightening and training of staff on the aspects of the strategic plan. There is also need to hold regular seminars to sensitize on the key activities involved in achieving each strategic goal.

For strategies to succeed there is need for proper cooperation and coordination of activities, as such all staff members should be involved and should feel to be part of the process. The office therefore need to consult when designing activities at the operational levels with the staff in this category as they are the ones who know how best to undertake some activities.

The office should further have in place a monitoring and control committee that gives its feedback on a regular basis to ensure that it does not loose focus towards achieving strategic goals.

The office should invest more in communicating their intended action plans in good time and in the right manner so that the employees can own the process. This can help in speeding up the outcome of the process and to increase innovation.

5.4 Suggestions for Further Research

The study noted that KENAO has adopted strategic management practices in the manner suggested by most theories of strategic management. However, shortcomings have been noted in implementation and monitoring of strategies.

There is therefore need for researchers to carry out more studies to establish why despite already having had two strategic plans i.e. for the years 2003-2008 and the current one of 2007-2012 there are still problems in implementation and monitoring. Some of the activities envisaged in the plan are still behind schedule and the office risks not attaining some of the goals it had set for itself.

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Public Sector Reform And Institutional Capacity Building : A Paper Presented during the Kenya Consultative Group Meeting held in Nairobi, 11th – 12th April, 2005

Appendix 1: Letter of Introduction

University of Nairobi, School of Business

Department of Business Administration,

P.O. Box 30197

NAIROBI.

Dear Respondent,

RE: SEARCH FOR RESEARCH DATA

I am a post graduate student at the University of Nairobi pursuing a course in Masters of Business Administration (MBA), specializing in strategic management. In partial fulfillment of the course requirement, I am conducting a case study on strategic planning practices at KENAO.

For the purpose of completing my research, I wish to collect data through the attached questionnaire. I shall be grateful if you kindly allow me to interview you.

The information provided is purely for my research project and will be treated with strict confidentiality. A copy of the final research report will be availed to you upon request.

Thank you for your co-operation.

S.N. GITHINJI

MBA STUDENT

Appendix 2: QUESTIONNAIRE

This questionnaire is designed for academic purposes only and the information given in response will be treated with utmost confidential. Kindly answer the questions as objectively as possible.

SECTION A: Background of Respondents

- 1. What is your Position at KENAO
.....
- 2. How long have you worked in the Kenya National Audit Office
.....

SECTION B: Kenao Information

- 3. Does KENAO have a strategic plan? If Yes in, please indicate the people that were involved in the formulation of the organization’s mission and vision.....
.....
.....
- 4. How long did it take in adopting the strategic planning practices? How often are the missions and vision statements of KENAO reviewed?
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.....
.....
- 5. What are the factors that influence strategic planning practices at KENAO?
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.....
.....
.....

6. Does the KENAO culture and management structure influence the strategic planning practices? If yes, explain

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.....

7. Please describe the stages or processes that the strategic plans pass through?

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.....
.....
.....

8. Does the KENAO create a planning committee during strategic planning? If yes, how many people are involved in the strategic planning and what are their designations?

.....
.....
.....

9. Is there a strategic plan implementation and monitoring committee and how often does it give its feedback report?

.....

10. Do you conduct environmental analysis during formulation of strategic plans? If yes do you also consider the internal environment like the government fiscal and human resources in strategic planning?

.....

11. Does the KENAO review the strategies it has formulated?

.....

12. What strategic planning approaches do you use in your strategic planning practices?.....

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13. Do strategic planning practices adopted in KENAO enhance the organization performance? Please explain.

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14. What are the key indicators that the strategic plan is being implemented as envisaged? Please explain.

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